

CITY OF PACIFIC
King County, Washington
January 1, 1994 Through December 31, 1994

Schedule Of Findings

1. Internal Controls Over Seized And Forfeited Property Operations Should Be Strengthened And The City Should Comply With Related Statutory Requirements

The City of Pacific Police Department operates a drug task force unit comprised primarily of reserve officers. This unit was headed by a part-time detective.

Our documentation, evaluation, and tests of the control structure disclosed the following weaknesses:

- a. There was a lack of proper segregation of duties. Specifically, the detective in charge of the Drug Task Force performed the following functions:
 - (1) Completed and maintained the crime inventory report.
 - (2) Served as custodian over seized properties.
 - (3) Accepted customer payments and generated the related accounting records for the police auction.
 - (4) Returned seized property to owners.
- b. The city did not maintain a central log or equivalent documentation reflecting all items seized under the Uniform Controlled Substances Act.
- c. The crime inventory sheet was not cross-referenced to the property inventory report.
- d. We noted instances where the property inventory report did not reflect all items seized under a given case and/or was not referenced or updated to reflect the return of seized property to the owners and/or the sale of certain items by auction.
- e. Forfeited items like cash and money orders were deposited with the city treasurer; however, the city did not maintain an inventory of forfeited fixed assets or other tangible properties.

Our tests also disclosed the following instances of lack of compliance with the state Uniform Controlled Substance Act, Chapter 69.50 RCW:

- a. The city did not remit its 1993, 1992, and 1991, ten percent of net proceeds of forfeited property to the state treasurer until November 21, 1994. The city did not remit the state share of 1994 forfeitures until October 17, 1995.
- b. The amounts remitted to the State Treasurer only reflected 10 percent of net proceeds of sold property and forfeited cash and cash equivalents. The 10 percent

of net proceeds of property retained for use by the police department was not remitted.

- c. Quarterly reports reflecting forfeiture operations were not remitted to the state for 1991 through 1994.

Under the Uniform Controlled Substance Act, Chapter 69.50 RCW, the city must by January 31 of each year, remit to the State Treasurer an amount equal to 10 percent of the net proceeds of both sold and retained property forfeited during the proceeding calendar year. In addition, the city must also file, with the State Treasurer, quarterly reports, including copies of the records of forfeited property.

These conditions were caused by a lack of proper segregation of duties over seizure and forfeiture operations and by lack of familiarity with certain statutory requirements governing these operations.

We recommend:

- a. City officials design policies and procedures over Drug Task Force operations to ensure:
 - (1) An adequate segregation of duties exists between access to the seized property and control over the related accounting records, or provide compensating controls in the form of independent oversight.
 - (2) Property inventory reports reflect all items seized under the Uniform Controlled Substance Act and proper disposition (e.g. forfeited; returned to owner).
 - (3) Auction(s) of forfeited property be conducted by an employee independent of seizure/forfeiture operations.
 - (4) The city maintain an inventory of all seized and forfeited fixed assets or other tangible properties.
- b. The city should remit the state share of net proceeds of forfeited properties and the related quarterly reports to the State Treasurer in a timely manner.

2. Internal Controls Over Confidential Fund Operations Should Be Strengthened

The Confidential Fund is used by the police department for the expansion and improvement of law enforcement activities over controlled substances. These moneys can be used to purchase specific information from informants or other evidences to determine the existence of drug crimes. This fund was administered by the Drug Task Force Unit.

Our audit of Confidential Fund operations for the period January 1, 1993, through July 5, 1995, disclosed the following weaknesses in the control structure:

- a. Paid out vouchers were not prenumbered and were not filed in one central location. We noted these vouchers were filed either in the individual case files or paid out folder or left loosely on the detective's desk.
- b. We noted instances where the master log, reflecting vouchers paid, was not complete and/or updated in a timely manner.
- c. Our cash count of this fund performed on July 3, 1995, disclosed that funds on hand plus outstanding payouts were \$157 higher than the imprest balance.

These conditions were caused by a lack of proper segregation of duties over the operation of the Confidential Fund.

We recommend:

- a. Official prenumbered vouchers be used for all Confidential Fund expenditures and should be filed in a central location.
- b. The manual log of all paid out expenditures be updated accurately and timely.
- c. The Confidential Fund be reconciled in a timely manner by an employee independent of the Drug Task Force operations.

3. The City Should Meet Its Debt Service Requirements

The 1994 net margins for debt service produced by the city's water and sewer utilities were not sufficient to meet the requirements of the respective bond ordinances. The shortfalls are calculated as follows:

	<u>Water</u>	<u>Sewer</u>
Operating Revenues	\$210,997	\$510,039
Miscellaneous Revenues	<u>30,497</u>	<u>10,931</u>
Total Revenues	241,494	520,970
Less Maintenance and Operating Expenditures	<u>231,062</u>	<u>519,749</u>
Margin Available for Debt Service	<u>10,432</u>	<u>1,221</u>
Debt Service Coverage Requirement	<u>54,803</u>	<u>26,150</u>
Shortfall	<u>\$44,371</u>	<u>\$24,929</u>

Bond Ordinance 1050 states in part, that the city:

... will establish, maintain and collect each year such rates and charges for water service furnished and shall adjust such rates and charges from time to time so that there will be made available for the payment of the principal of and interest on the 1986 Bonds, the Bonds and any Future Parity Bonds Net Revenue of the Waterworks Utility, together with the collection of ULID assessments, in an amount equal to the Coverage Requirement. [Section 15 (b)].

"Coverage Requirement" shall mean Net Revenue of the Waterworks Utility at least equal to:

(a) during any scheduled ULID Assessment payment period while Assessments remain outstanding, 1.10 times the Average Annual Debt Service in that current year on all 1986 Bonds, Bonds and Future Parity Bonds. . . . [Section 1]. (Emphasis ours.)

Bond Ordinance 1160 states in part, that the city:

... will establish, maintain and collect such rates and charges for sewer service so long as any portion of the Bond and any Future Parity Bonds are outstanding which, together with the collection of other Net Revenue and of ULID assessments, will make available for the payment of the principal of and interest on such bonds as the same accrue, an amount equal to at least 1.30 the Maximum Annual Debt Service in any current year on the Bonds and any Future Parity Bonds outstanding (the "Coverage Requirement"). [Section 13 (a)]. (Emphasis ours.)

These conditions were caused by a lack of familiarity with revenue bond covenant requirements.

We recommend city officials develop policies and procedures to ensure that net revenues generated by the water and sewer utilities are adequate to meet bond covenant requirements.

4. Internal Controls Should Be Strengthened And Vouchers Should Be Certified And Approved For Payment In Accordance With Statutory Requirements

Our documentation, evaluation, and tests of the control structure disclosed the following weaknesses:

- a. The city did not have any formal policies or procedures governing utility account adjustments. These adjustments were not supported by utility adjustment forms or equivalent documentation or authorized by an employee independent of the utility billing and related cash handling functions.
- b. There was a lack of proper segregation of duties over cash disbursements. The city treasurer issued and signed the treasurer's checks, initiated all electronic fund transfers, and reconciled the related checking account to the bank statement and general ledger system. This reconciliation was not reviewed by an employee independent of cash disbursement functions.
- c. There was a lack of proper segregation of duties over warrant redemptions. As previously discussed, the treasurer issued and signed the treasurer's checks. The city treasurer also picked up the redeemed warrants, balanced the warrants to the treasurer's check, posted the warrants to the warrant processing system, and produced the paid/canceled warrant reports. These reports were not reviewed by an employee independent of the warrant redemption functions.
- d. There was a lack of proper segregation of duties over payroll processing. The city clerk performed all payroll processing functions and manually signed and affixed the mayor's signature stamp to the warrants.
- e. There was a lack of proper segregation of duties over claims processing. We noted instances where the city clerk issued claims warrants prior to approval by the full council. As previously discussed, the city clerk manually signed and affixed the mayor's signature stamp to the warrants.

Our documentation, evaluation, and tests of the control structure over claims processing disclosed the following compliance issues:

- a. Vouchers were certified by the city clerk and three members of the city council prior to approval by the full council. The city council had not adopted appropriate policies and procedures authorizing this practice.
- b. The city council has not officially appointed the city clerk as the "auditing officer."

RCW 42.24.080 states in part:

All claims presented against any . . . city . . . by persons furnishing materials, rendering services or performing labor, or for any other contractual purpose, shall be audited, before payment, by an auditing officer elected or appointed pursuant to statute or, in the absence of statute, an appropriate charter provision, ordinance or resolution of the municipal corporation or political subdivision.

RCW 42.24.180 states in part:

In order to expedite the payment of claims, the legislative body of any

taxing district . . . may authorize the issuance of warrants or checks in payment of claims . . . before the legislative body has acted to approve the claims . . . However, all of the following conditions shall be met before the payment:

(1) The auditing officer and the officer designated to sign the checks or warrants shall each be required to furnish an official bond for the faithful discharge of his or her duties in an amount determined by the legislative body but not less than fifty thousand dollars.

Since the city council has not officially appointed an auditing officer, the city does not have the authority to issue warrants prior to approval by the city council.

City officials were unaware of these statutory requirements.

We recommend city officials:

- a. Design policies and procedures governing customer account adjustments, ensuring such adjustments are properly authorized and supported.
- b. Design policies and procedures providing for a proper segregation of duties.

We further recommend the city council adopt a resolution or ordinance officially appointing an auditing officer and, if so desired, adopt appropriate policies and procedures authorizing the issuance of warrants prior to council approval.